

M e m o r a n d u m

To: Panel Members Date: September 22, 2006

From: Dolores Kendrick, Manager Analyst: M. Paccerelli

Subject: One-Step Agreement for **SHAW DIVERSIFIED SERVICES, INC.**

CONTRACTOR:

- Training Project Profile: Retraining: Companies W/Out-Of-State Competition
- Legislative Priorities: Promotion of California's Manufacturing Workforce
Moving To A High Performance Workplace
Expanding within California
- Type of Industry: Manufacturing
- Repeat Contractor: No
- Contractor's Full-Time Employees
 - *Worldwide:* 30,000
 - *In California:* 1,000
- ETP Trainees Represented by Union: No
- Name and Local Number of Union Representing ETP Trainees: N/A

CONTRACT:

- Program Costs: \$389,500
- Substantial Contribution: \$0
- Total ETP Funding: \$389,550
- Total In-kind Contribution: \$514,800
 - *Trainee Wages Paid During Training:* \$514,800
 - *Other Contributions:* \$0
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Los Angeles

INTRODUCTION:

Shaw Diversified Services, Inc. (SDS) is a manufacturer of carpet. The company qualifies for standard ETP funding as a manufacturing company facing out-of-state competition, under Title 22 California Code of Regulations, Section 4416(b).

SDS representatives report that the company's business has grown, resulting in the expansion of its workforce and manufacturing operations. As a result, the company is requesting ETP funds to retrain its workforce in its manufacturing plants in Santa Fe Springs, California to improve efficiencies, reduce costs, remain competitive, and transition to a high performance workplace.

MEETING ETP GOALS AND OBJECTIVES:

SDS proposes training that will further the following ETP goals and objectives:

- 1) To promote California's manufacturing workforce.
- 2) To foster job retention in industries threatened by out-of-state competition.
- 3) To assist a company that is expanding within the State and is committed to investing in the training of its frontline workers.

TRAINING PLAN TABLE:

Grp/Trainee Type	Types Of Training	No. Retain	No. Class/Lab Videocnf. Hrs.	No. CBT Hrs.	Cost Per Trainee	Hourly Wage After 90 Days
Retrainee Job Number 1	MENU Manufacturing Skills; Continuous Improvement; Business Skills; Computer Skills; Hazardous Materials Skills; Management Skills; Literacy Skills	530	24 -160	0	\$735	*\$12.90 \$75.00
Wages After 90-Day Retention						
<u>Occupation</u>						
Production Workers Maintenance & Electrical Workers Administrative Workers Leads Supervisors Managers						
<u>Health Benefits Used To Meet ETP Minimum Wage:</u> *Health benefits of at least \$2.55 per hour may be added to a trainee's wages to meet the ETP minimum hourly rate of \$12.90 for Los Angeles County.					<u>Turnover Rate</u> 12%	<u>% Of Mgrs & Supervisors To Be Trained:</u> 8%
<u>Other Employee Benefits:</u> 401(k) Savings Plan, Short & Long Term Disability, Group and Optional Term Life Insurance, Tuition Reimbursement, Adoption Assistance, Employee Discounts on all Shaw Products, Prescription Drug Plan, Paid Holidays, Vacation, Tax-deferred Flexible Spending Accounts.						

COMMENTS / ISSUES:

➤ *Frontline Workers*

All participants in this project meet the Panel definition of frontline workers under Title 22 California Code of Regulations, Section 4400(ee), except for 40 managers and supervisors, representing eight percent of the trainee population.

➤ *Production During Training*

The proposed Contractor agrees that during ETP-funded training hours trainees will not produce products or provide services which will ultimately be sold.

RECOMMENDATION:

Staff recommends that the Panel approve this proposal. This recommendation is based on SDS' stated need to provide training to its workforce, which is expected to increase by 20 percent within the next two years. Formal training program in the company's processes and procedures, including training in new equipment and systems, must be implemented for SDS to remain competitive and sustain growth.

NARRATIVE:

SDS is a manufacturer of tufted broadloom carpet. Its parent company, Shaw Industries Group, Inc. (Shaw Inc.), got its start in 1946 when Clarence Shaw purchased Star Dye Company, a small business that dyed tufted scatter rugs. The company grew over the years and went public in 1971. In 2001, Shaw Inc. was purchased by Berkshire Hathaway Inc. as a subsidiary and the company has since grown into a \$5 billion company.

Headquartered in Georgia, Shaw Inc. manufactures carpeting and rugs for residential and commercial applications throughout the United States and exports its products worldwide. The company markets its residential products under such brand names and trademarks as *Cabin Crafts*, *Couture by Sutton*, *Cumberland*, *Expressive Designs*, and *Home Foundations*; and commercial products under the names *Shaw Contract*, *Designweave*, *Patcraft*, and *Queen Commercial*. The company also sells commercial flooring products, laminate flooring through the *Decades* brand, ceramic tile through *Shaw Ceramics*, and hardwood flooring through *Shaw Hardwoods*.

Shaw Inc. has over 100 manufacturing sites in the United States. In California, there are two SDS manufacturing plants; which operate under the name *Shaw Diversified Services, Inc.* located in Santa Fe Springs. One plant handles the tufting and carpet manufacturing; and the other is a color dye house & finishing operation plant. SDS' customer base ranges from retail stores to national retailers. SDS also sells to builders, commercial contractors, dealers, and distributors. Because there is no exclusivity in customer territory within the company, SDS also competes with other Shaw Inc. manufacturing sites, along with those other companies worldwide.

NARRATIVE: (continued)

To remain competitive, the company must retrain its workers to increase profitability and customer satisfaction. SDS' main competitors are carpet manufacturers in Georgia, which holds a 50 percent share of the industry. Training of workers at SDS' California sites is needed to increase its productivity and to become a high performance workplace. Otherwise, the cost of manufacturing and lack of workers' skills may lead to production being diverted to a Shaw, Inc. facility in Georgia.

According to SDS representatives, company sales have increased over the past three years. As a result of increase in sales, hiring increased by 12 percent and is expected to increase by an additional 20 percent within the next two years. The company normally runs a 24-hour operation five days a week. However, to meet customer demands, the company has been operating seven days a week resulting in substantial overtime costs. Although the company has maintained its on-time delivery reputation with its customers during its recent growth, it faces multiple new challenges relating to maintaining this reputation. Employee training is now emphasized as a central element of the company's strategic objectives. With ETP funding, the company expects to upgrade the skills of its workforce, in order to remove bottlenecks in production, and in the process, unveil and address many of its substandard processes.

Manufacturing Skills:

To keep up with business growth, SDS has purchased new machines, primarily for dye application, latex application, and tufting. The company has invested from \$100,000 to \$2,000,000 for each machine. Total investment in the past two years is \$10.6 million. This investment does not include training in the operation of this equipment; therefore, the company is requesting ETP funds to train employees on equipment use and maintenance, as well as ISO standards. Production workers will also receive cross-training in processes, as workload shifts and responsibilities occur. With this knowledge, trainees can be moved from one function to another based on production needs, allowing the company to create a flexible workforce.

Business Skills:

This training will be provided to all trainees to establish lines of communication between all occupations. Managers and supervisors will also receive training in project management, strategic planning, and inventory control to effectively implement company objectives in the production floor.

Computer Skills:

The company is challenged by evolving manufacturing processes, which are now becoming increasingly computer-based with more sophisticated instrumentation. Since the company is moving its processes from a paperless to automated system, this training will enable all trainees to be competent in utilizing the company's systems: ARIBA (electronic purchasing software), PeopleSoft (Enterprise Resource Planning system), SQS (Shaw Quality System), SES (Shaw Environmental System) and SAFE (Shaw Accident Free Environment). Administrative staff, managers, and supervisors will also receive formalized training in Intermediate and Advanced Microsoft Office Suite used for correspondence, spreadsheets, and presentations.

NARRATIVE: (continued)

Continuous Improvement:

This training will improve quality and production efficiencies by providing all trainees with the skills needed to understand, identify, analyze and implement improvements in the business. This training will also allow the company to implement its goals of improving service to customers with better products and responsiveness and produce quality products at less time and lower costs.

Hazardous Materials

Chemicals are used in the carpet manufacturing process and employees must be trained to ensure correct procedures are followed for their use, transportation and storage. This training will consist of environmental management for production staff who create and implement hazardous material handling plans and systems for the company. This training is above the basic training required by Cal-OSHA.

Management Skills:

Managers will receive training in advanced leadership and effective coaching. This training will teach managers how to develop and lead high performance teams as the company grows and increases production.

Literacy Skills:

Training will be offered to trainees assessed as requiring Vocational English as a Second Language (VESL). This training will not exceed 45 percent of the trainee's total job specific skills training. Training will cover basic workplace terminology, English verbal and written communication, grammar, writing, reading, and language comprehension skills, which will enable the trainees to accomplish their daily work duties.

Commitment to Training

SDS representatives state that ETP funding will not displace employer's resources for training. Current and prior training topics include new hire orientation, basic safety training, legal compliance in hiring and terminations, prevention of sexual harassment, and all Cal-OSHA-required training. Most prior general training has been done informally in a one-to-one situation focused on job specific skills for new employees on an as-needed basis. Due to budget limitations, the company is unable to deliver the proposed training program without ETP assistance.

For those employees who are identified by SDS as candidates for managerial positions, Shaw, Inc. devotes training resources to provide a career opportunity and upward mobility. These workers are selected to participate in an intensive 10-week management training curriculum at the corporate office in Georgia at the company's expense. This training is provided to newly-hired managers, while the management training in the proposed ETP curriculum will be provided to current managers.

At the completion of the ETP program, the company anticipates devoting up to two percent of employee time to ongoing training and implementation of continuous process improvement systems.

SUBCONTRACTORS:

None

THIRD PARTY SERVICES:

The California Manufacturing and Technology Association assisted with the application development at no charge to the company.

SHAW DIVERSIFIED SERVICES, INC.

MENU CURRICULUM

Class Lab Hours
(24-160)

Trainees will receive any of the following:

COMPUTER SKILLS

ARIBA (Electronic Purchasing Software)
PeopleSoft (Enterprise Resource Planning)
SQS (Shaw Quality System) software
SES (Shaw Environmental System) software
SAFE (Shaw Accident Free Environment) online system
PLC (Programmable Logic Controllers)
Intermediate/Advanced Microsoft Office Suite (Word, Excel, PowerPoint)

CONTINUOUS IMPROVEMENT

Teamwork & Teambuilding
Frontline Leadership
Six Sigma
5S Methodology
Problem Solving & Decision Making
Process Improvement
Quality Assurance
Total Quality Management
Production Operations & Workflow

ISO Management Standards (*no more than 8 hours*)

- ISO 14000 Environmental Management Standards
- ISO 9000 Quality Management Standards

MANUFACTURING SKILLS

Equipment Operation & Procedures
Cross Training in Production Processes & Procedures

BUSINESS SKILLS

Enhanced Customer Service Skills
Strategies for Effective Communication
Project Management
Strategic Planning
Establishing and Achieving Goals
Enhanced Product Knowledge
Conflict Management
Inventory Control

SHAW DIVERSIFIED SERVICES, INC.

MENU CURRICULUM
(Continued)

Class Lab Hours
(24-160)

Trainees will receive any of the following:

HAZARDOUS MATERIALS

Hazardous Chemical Handling, Transportation & Storage
Waste Stream Management

MANAGEMENT SKILLS *(to be provided to Managers only)*

Advanced Leadership Skills for Managers
Coaching and Managing Team Performance

LITERACY SKILLS

(must not exceed 45% of the total job specific skills training)
Vocational English as a Second Language

<p><u>Comment:</u> The parties agree that the training identified in this Curriculum may be revised from time-to-time during the term of this Agreement at the request of Contractor and with the prior written approval of ETP. (See also Section 12 in this Agreement.)</p>
